

Message Text

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44

ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

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R 041555Z AUG 73

FM AMEMBASSY REYKJAVIK

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DEPT PASS EXIM BANK FOR D BOSTWICK

PASS COMMERCE FOR J WHALEN

E.O. 11652: N/A

TAGS: BEXP IC

SUBJECT: FRG, SOVIETS AWARDED MECHANICAL PORTION OF SIGALDA
HYDRO-ELECTRIC PROJECT

REF: REYKJAVIK 520 AND PREVIOUS

1. SUMMARY. NATIONAL POWER CO. (LANDVIRKJUN) BOARD VOTED TO ACCEPT OFFER ON SIGALDA MECHANICAL EQUIPMENT FROM BROWN-BOVERY (W. GERMANY) AND ENERGOMACHEXPORT OF SOVIET UNION. ATTRACTIVE FINANCING, INCLUDING 15-YEAR, 3-1/2 PERCENT TERMS FROM RUSSIANS, PROVED DIFFERENCE IN COMPETITION WITH SYBETRA OF BELGIUM WHICH HAD LOWER BID PRICE. WINNING BID WAS ABOUT US\$16 MILLION AT CURRENT EXCHANGE RATE. END SUMMARY.

2. FOLLOWING EXTENDED DISCUSSIONS, LANDSVIRKJUN BOARD, IN 4-3 DECISION AUGUST 2, VOTED TO AWARD FRG-SOVIET CONSORTIUM THE MECHANICAL PART OF THE SIGALDA HYDRO-ELECTRIC PROJECT. YUGOSLAV FIRM, ENERGOPROJECT, WAS EARLIER GIVEN CONTRACT FOR CIVIL WORKS.
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INITIAL FRG-SOVIET BID WAS SOME IKR 53 MILLION (ABOUT \$600,000)

ABOVE PRINCIPAL COMPETITOR, SYBETRA OF BELGIUM, BUT FINANCING WAS CALCULATED AS SHOWING FRG-SOVIET BID TO BE ABOUT \$575,000 CHEAPER. TERMS INVOLVED 3-1/2 PERCENT, 15-YEAR LOAN -- WITH THREE-YEAR GRACE PERIOD -- ON SOVIET TURBINES AND GENERATORS (ABOUT 40 PERCENT OF BID PRICE) AND APPROXIMATELY 6-3/4 ON BROWN BOVERI EQUIPMENT (EVERYTHING BUT TURBINES AND GENERATORS).

3. DISAGREEMENT AMONG BOARD MEMBERS AROSE OVER CHANGES ALLOWED IN DESIGN ON WINNING BID. CONSULTING FIRM, ELECTRO-WATT OF ZURICH, INSISTED ON CHANGES IN CERTAIN ASPECTS OF GOVERNOR AND TURBINE, WHICH WERE IMPLEMENTED AFTER SUBMISSION OF BIDS BUT WITH APPARENTLY NO CHANGE IN BID PRICE, ALTHOUGH IMPLEMENTATION OF CHANGES INVOLVED SUBSTANTIAL COST. DISSENTING BOARD MEMBERS ISSUED PUBLIC STATEMENT STRONGLY CRITICIZING ELECTRO-WATT AND ENTIRE SELECTION PROCESS. BUT WHILE SOME MINOR POINTS MUST BE RESOLVED BEFORE AGREEMENT IS FINALIZED, THESE ARE NOT EXPECTED TO ALTER SITUATION AND AGREEMENT SHOULD BE SIGNED WITHIN TWO WEEKS. IRVING

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